



BOARD OF SUPERVISORS

**Gloria Molina**  
First District

**Yvonne Brathwaite Burke**  
Second District

**Zev Yaroslavsky**  
Third District

**Don Knabe**  
Fourth District

**Michael D. Antonovich**  
Fifth District

**THOMAS L. GARTHWAITE, M.D.**  
Director and Chief Medical Officer

**FRED LEAF**  
Chief Operating Officer

COUNTY OF LOS ANGELES  
DEPARTMENT OF HEALTH SERVICES  
313 N. Figueroa, Los Angeles, CA 90012  
(213) 240-8101

September 28, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD  
Director and Chief Medical Officer

A handwritten signature in black ink, appearing to read "Thomas L. Garthwaite", is written over the printed name and title.

**SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE**

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

The attached schedule provides an update of the Department's Fiscal Outlook since the last Health Department Budget Committee of the Whole of on June 22, 2004. The Department's forecast cumulative shortfall through Fiscal Year 2007-08 has decreased from \$642.9 million to \$629.9 million.

Attachments A and B detail the changes in the Department's fiscal forecast. The change in the forecast shortfall can be attributed to a number of changes in the assumptions related to revenue realization and expenses by both the Department and the Chief Administrative Office. A detailed explanation of these items is included in Attachment B.

As the Department has previously noted, there continue to be a number of significant events, delineated in Attachment C, which, if they occur, would substantially alter the fiscal outlook for the worse; causing the Department's cumulative shortfall to grow to \$1.509 billion in Fiscal Year 2007-08.

As I have reported in the past, federal and state activities related to restructuring the Medicaid and Medi-Cal programs could have a substantial impact on the Department's budget over the next several years. However, because neither of these reform efforts has been fully developed at this time, it is impossible to forecast their impact on the Department's budget situation. State efforts to restructure the Medi-Cal program have been delayed until January 2005, when they will be included in the Governor's budget proposal. However, the State plans to present a far-reaching Medi-Cal finance restructuring proposal to the Centers for Medicare and Medicaid Services (CMS) early next week, as reported in a recent Chief Administrative Office memo. DHS is continuing to work actively with the State and as part of a number of coalitions, such as the California Healthcare Association's Disproportionate Share Hospital Task Force and the California Association of Public Hospitals in an attempt to ensure this proposal does not disproportionately impact the Department.

One change that has occurred since the Department's last report on this subject is the action by the Auditor-Controller to place \$126.9 million of the Department's \$568.7 million designation balance for Fiscal Year 2003-04 in a reserve account for long-term receivables related to the Cost-based Reimbursement Clinics (CBRC) revenues for services provided through June 30, 2004. This is due to the State's delay in completing its annual audits of the Department's CBRC cost reports. As a result, payment for Fiscal Year 2003-04 will likely not be received prior to June 30, 2005. Because the State is paying DHS for CBRC services based on very conservative interim rates, pending completion of the audits, the initial payments are expected to be significantly below the final reimbursement.

The consequence of placing a portion of the Department's designation balance in the reserve account is that these dollars will not be available for use in the following fiscal year. While this does not cause a cash-flow problem for the Department in Fiscal Year 2004-05, should a similar reserve be required at the end of Fiscal Year 2005-06, it would have the practical effect of increasing the forecast \$147.5 million designation balance shortfall for Fiscal Year 2006-07 to \$274.4 million, thus exacerbating the Department's budget shortfall.

In an attempt to address this problem, the Department is requesting that the State either increase its interim reimbursement or accelerate its audits. However, given the potential impact on the State's budget shortfall, it may be reluctant to grant this request. The Department will keep you apprised of the status of this matter.

The Department has previously informed your Board it would be delaying implementation of the Fiscal Year 2004-05 installment of the 16 percent efficiencies at King/Drew Medical Center from July 1 to October 1, 2004 (Item 3A on Attachment

Each Supervisor  
September 28, 2004  
Page 3

D). However, given the magnitude of the problems at the hospital, the Department will not be making any staffing reductions and thus will not achieve the target savings during this Fiscal Year.

Additionally, in Fiscal Year 2003-04, King/Drew Medical Center lost an estimated \$10 million in revenue as a result of steps taken to decompress the hospital's patient volume. At the same time, expenditures associated with physical plant repairs, supplemental nursing staff, and outside consultants were approximately \$7 million. The hiring of an outside consultant, as required under the Memorandum of Understanding with the Centers for Medicare and Medicaid Services, will increase these expenditures dramatically.

As has been discussed previously, the Department's fiscal outlook is extremely volatile. There remain a broad range of outstanding federal and state actions that could substantially impact the current budget shortfall over the next several years. The Department continues to work aggressively to achieve the savings included in Scenario III, as well as to identify additional savings opportunities.

I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - SEPTEMBER 2, 2004**  
(\$ IN MILLIONS BASED ON FY 03-04 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS							TOTAL / (7)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)		
1. Surplus/Deficit as of June 26, 2002								
2. Scenario III Reductions / Use of Designation Funds								
		\$ (326.6)	\$ (549.2)	\$ (709.4)				
	*(see note)	267.8	327.8	357.5				
3. Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)		\$ (58.8)	\$ (221.4)	\$ (351.9)	\$ (387.3) <sup>(A)</sup>	\$ (423.7) <sup>(A)</sup>	\$ (1,443.1)	
4. Forecast Update **								
	263.9	340.0 <sup>(B)</sup>	227.1 <sup>(C)</sup>	77.6 <sup>(D)</sup>	25.2 <sup>(D)</sup>	(55.1) <sup>(D), (I)</sup>		
5. Forecast Surplus/(Shortfall) <sup>(E),(F)</sup>	\$ 263.9	\$ 281.2	\$ 5.7	\$ (274.3)	\$ (362.1)	\$ (478.8)	\$ (478.8)	
6. Beginning Fiscal Year Fund Balance	121.0 <sup>(G)</sup>	353.1 <sup>(H)</sup>	634.3	640.0	365.7	-	-	
7. Cumulative Year End Fund Balance/(Shortfall) <sup>(E),(F)</sup>	\$ 384.9	\$ 634.3	\$ 640.0	\$ 365.7	\$ 3.6	\$ (478.8)	\$ (478.8)	
8. Defer Rancho Closure (191 beds) to July 1, 2005	\$ -	\$ (49.5)	\$ (55.7)	\$ -	\$ -	\$ -	\$ (105.2)	
9. Impact to Beginning Fiscal Year Fund Balance	-	-	(49.5)	(105.2)	(105.2)	(105.2)	N/A	
10. Revised Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 584.8	\$ 534.8	\$ 260.5	\$ (101.6)	\$ (584.0)	\$ (584.0)	
11. Defer LAC+USC Medical Center 100 Bed Reduction to July 1, 2005	\$ -	\$ (16.1)	\$ (29.8)	\$ -	\$ -	\$ -	\$ (45.9)	
12. Impact to Beginning Fiscal Year Fund Balance	-	-	(16.1)	(45.9)	(45.9)	(45.9)	N/A	
13. Revised Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7 <sup>(J)</sup>	\$ 488.9	\$ 214.6	\$ (147.5)	\$ (629.9)	\$ (629.9)	

**NOTES TO FISCAL OUTLOOK**

- \* The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- \*\* Includes revenues previously shown separately (Measure B, SPCPI/PL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement), the current year's portion of which is already included in the FY 03-04 budget.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Up to \$20.0M of the FY 03-04 SPCPI/PL dollars may require DSH flexibility to be retained.
- (C) Reflects release of the \$96.1M trust fund reserve.
- (D) If CBRC/FQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$61.9M, \$65.5M, and \$69.2M for FY's 05-06, 06-07, and 07-08, respectively.
- (E) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels. These estimated reductions totaling \$374.6M, are \$97.6M, \$124.9M, and \$152.1M, for FY's 05-06, 06-07 and 07-08, respectively, and are not reflected in the above. When the UPL is fully implemented, the value could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and potential future Medicaid reform create significant uncertainty regarding the Department's Fiscal Outlook.
- (F) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (G) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (H) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (I) These estimates do not take into account the opening of the LAC+USC replacement facility in July 2007. Per LAC+USC, current financial projections for the new LAC+USC will not be available until January 2005.
- (J) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**FISCAL OUTLOOK - SEPTEMBER 2, 2004**  
(\$ IN MILLIONS BASED ON FY 03-04 SUPPLEMENTAL BUDGET RESOLUTION)

ATTACHMENT A.1

**POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS:**

Line #		FISCAL YEARS / COLUMNS						TOTAL / (7)
		2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	
14.	<u>Revised</u> Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 488.9	\$ 214.6	\$ (147.5)	\$ (629.9)	\$ (629.9)
15.	Inability to Closer/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2005, or thereafter	\$ -	\$ -	\$ -	\$ (93.9)	\$ (103.2)	\$ (111.1)	\$ (308.2)
16.	Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration on June 30, 2005	-	-	-	(61.9)	(65.5)	(69.2)	(196.6)
17.	Federal "Re-basing" of SPCP Waiver	-	-	-	(97.6)	(124.9)	(152.1)	(374.6)
18.	Medi-Cal Redesign	-	-	?	?	?	?	?
19.	Subtotal	\$ -	\$ -	\$ -	\$ (253.40)	\$ (293.60)	\$ (332.40)	\$ (879.40)
20.	Impact to Beginning Fiscal Year Fund Balance	-	-	-	-	(253.4)	(547.0)	N/A
21.	Potential Estimated Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 488.9	\$ (38.8)	\$ (694.5)	\$ (1,509.3)	\$ (1,509.3)

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK**  
 JUNE 10, 2004 THROUGH SEPTEMBER 2, 2004

	Fiscal Year / \$ In Millions					Total
	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	
(1) <b>Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - June 10, 2004</b>	\$ 532.6	\$ 469.1	\$ 195.4	\$ (161.7)	\$ (642.9)	\$ (642.9)
(2) CAO increase in Vehicle License Fee estimates for FY 03-04 through FY 07-08 received on August 4, 2004.	12.1	9.4	9.5	9.6	9.7	50.3
(3) Reduce the estimated excess CHP net equity to be contributed to the DHS designation fund based on updated Office of Managed Care estimates on July 26, 2004 due to declining enrollment and increased OMC infrastructure costs.	-	(6.2)	(4.5)	(4.2)	(3.8)	(18.7)
(4) Reduce AB 915 - Medi-Cal outpatient revenue based on updated estimates completed on August 5, 2004. <sup>(4)</sup>	(4.4)	(2.6)	(2.7)	(2.8)	(2.9)	(15.4)
(5) Add new costs for cardiac catheterization laboratory equipment at Harbor/UCLA and Olive View Medical Centers based on estimates received from DHS Facilities Planning Services on July 8, 2004.	-	(12.3)	-	-	-	(12.3)
(6) Adjust revenues received for mental health services based on third party liability cancellations, overrealized revenue, and audit settlements per the FY 03-04 final actuals on August 17, 2004.	11.6	-	-	-	-	11.6
(7) CAO reduce debt service costs related to the LAC+USC Medical Center replacement facility per the FY 03-04 final actuals on August 17, 2004.	5.2	-	-	-	-	5.2
(8) Adjust SB 1732 revenue per updated estimates on August 25, 2004. <sup>(5)</sup>	1.1	0.8	0.6	(3.3)	(3.3)	(4.1)
(9) Adjust Children's Medical Services prior year State revenue based on final cost reports for FY 02-03 reported in August 2004.	4.0	-	-	-	-	4.0
(10) CAO adjust capital project costs for FY 03-04 based on final actuals on August 17, 2004 and for FY 04-05 for a loan to the General Fund for new high priority projects that will be repaid in FY 07-08.	0.9	(4.0)	-	-	4.0	0.9
(11) Change in current fiscal year operating forecast per the FY 03-04 final actuals on August 17, 2004 / Other minor ongoing changes to the future years estimates.	5.6	(1.4)	(3.5)	(4.3)	(4.9)	(8.5)
(12) Forecast improvement/(reduction) roll-forward	-	36.1 <sup>(2)</sup>	19.8 <sup>(2)</sup>	19.2 <sup>(2)</sup>	14.2 <sup>(2)</sup>	-
(13) <b>Revised <sup>(1)</sup> Estimated Cumulative Year-End Fund Balance / (Shortfall) - September 2, 2004</b>	\$ 568.7 <sup>(3)</sup>	\$ 488.9	\$ 214.6	\$ (147.5)	\$ (629.9)	\$ (629.9)

**Notes**

- (1) Assumes Rancho Los Amigos NRC and LAC+USC 100 beds will be closed June 30, 2005, CBRC/FQHC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (2) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$36.1 million in FY 04-05 is \$568.7 million - \$532.6 million from FY 03-04.
- (3) \$126.9 million of this amount is in a reserved account for long-term receivables related to estimated CBRC payments.
- (4) AB 915 revenue estimates have been reduced due to psych services being excluded from the calculation. FY 03-04 includes estimates for FY 02-03 and FY 03-04.
- (5) FY 03-04 reflects estimates for FY 02-03 and FY 03-04. FY 06-07 reflects updated estimates for central plant projects at K/DMC and RLA.

DHS Fiscal Outlook

Attachment A provides an update through September 2, 2004 of the Department's Fiscal Outlook. Attachment B is a high level summary of the key developments, and their fiscal impact, since our last update through June 10, 2004. The estimated cumulative shortfall through FY 07-08 has decreased from \$642.9 million to \$629.9 million. In the event that any of the following three events transpire, they could cause this estimate to increase, as follows:

	<u>\$ In Millions</u>
Estimated Cumulative Year-End Fund Balance/ (Shortfall) as of September 2, 2004	\$( 629.9)
--Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2005, or thereafter	( 308.2)
--Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration (June 30, 2005)	( 196.6)
--Federal "Re-basing" of SPCP Waiver	( 374.6)
<u>Potential</u> Estimated Cumulative Year-End Fund Balance/(Shortfall) as of September 2, 2004	<u>\$(1,509.3)</u>

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

Of the \$568.7 million designation balance at the end of FY 03-04 [Attachment A, Line 13, Column (2)], the Auditor-Controller (A-C) has placed \$126.9 million in a reserve account for long-term receivables relating to CBRC revenue payments, for CBRC services provided through June 30, 2004, that will likely not be received by June 30, 2005. The expected delay in receiving these payments from the State is due to the time being taken to complete their annual audits of CBRC cost reports. Since the State is paying us for CBRC services based on highly conservative interim rates, pending completion of its CBRC cost report audits, the interim payments are expected to be much less than the final reimbursement made after audit completion. The consequence of placing a portion of the designation balance in the reserve account is that such funds are not available for use in the following fiscal year. Should a similar reserve be required at the end of FY 05-06, this would have the practical effect of increasing the forecast \$147.5 million designation balance shortfall for FY 06-07 [Attachment A, Line 13, Column (5)] to a \$274.4 million shortfall (\$147.5M + \$126.9M).

## DHS Fiscal Outlook (cont.)

In attempt to alleviate this situation, we are requesting that the State increase its interim reimbursement rates and/or accelerate the completion of CBRC cost report audits. The State, however, may be reluctant to grant this request, since its cash basis accounting system would force recognition of any accelerated payments as an expense, adding to its budgetary shortfall.

The State continues to work on a Medi-Cal redesign plan, deferring its target completion date a second time to January 2005. However, they continue to work on a financing proposal to present to CMS in September 2004 and still plan to begin saving \$400 million per year Statewide beginning in FY 05-06. This restructuring, which is yet to be finally defined, is intended to supersede the SPCP Waiver, which expires in December 2004, and could have a major impact on the Department's Fiscal Outlook. We continue to actively work with the State, its consultant, the California Healthcare Association's DSH Task Force, and the California Association of Public Hospitals to achieve as favorable an outcome to the County as possible from this process.

09/02/04

M:\Excel\Projects\Scorecard\FY03-04\WorkInProgress\DHSEFiscal Outlook090204 (d).doc

**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) <sup>(a)</sup>**

FISCAL YEARS 2002-03 THROUGH 2007-08

(\$ in millions)

Line #. Line #. A.	Board Decision Date	Planned/ Imple- mentation Date	Status as of 09/02/04	PLANNED SAVINGS - LINE #. VS. FORECAST SAVINGS - LINE #. A.						
				2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	
<b>HOSPITALS</b>										
1. 1. A.	Planned reduction of LAC+USC 100 beds Forecast savings	10/02	05/03	Court injunction	\$ 2.000 (b)	\$ 16.100 (b) (c)	\$ 29.800 (c)	\$ 31.900 31.900	\$ 34.100 34.100	\$ 36.500 36.500 (n)
2. 2. A.	Planned LAC+USC efficiencies Forecast savings	10/02	07/05		- -	- -	- -	20.100 20.100	20.700 20.700	21.300 21.300
3. 3. A.	Planned 16% efficiencies at MLK/D Forecast savings (e)	06/02	05/03		2.800 (b)	20.900 20.900	46.200 38.057 (d)	61.900 61.900	63.800 63.800	65.700 65.700
4. 4. A.	Planned closure of RLANRC or alternate governance Forecast Saving (e)	10/02 & 06/03	07/04	Court injunction	- -	58.600 (m) 9.100 (c)	64.800 10.894 (c)	70.400 70.400	77.400 77.400	85.000 85.000
6. 6. A.	Planned conversion of HDH to a MACC Forecast Saving (e)	06/02	05/03		1.400 (b)	9.800 8.631 (b) (1)	11.100 9.931 (f) (1)	12.500 11.184 (1)	14.100 12.616 (1)	16.000 14.316 (1)
7. 7. A.	Planned capital cost avoidance at HDH Forecast Saving	06/02	07/02		2.000 (b) (g)	0.900 (b) (g)	- -	- -	- -	- -
8. 8. A.	Planned restructure of psych services Forecast savings (e)	10/02	10/02	Negotiations ongoing	0.200 0.250	20.200 7.721 (h) (2)	25.300 9.662 (2)	29.200 6.550	33.600 6.740	38.600 6.950
<b>COMPREHENSIVE HEALTH CENTERS</b>										
9. 9. A.	Planned CHC efficiencies Forecast savings (e)	10/02	05/03		3.700 (b)	23.300 9.864 (b) (3)	24.000 16.480 (f)	24.600 16.970	25.300 17.480	26.100 18.000
<b>HEALTH CENTERS</b>										
<b>Northeast Area</b>										
10. 10. A.	Planned closure of 4 HC's Forecast savings	06/02	10/02		6.300 6.300	8.900 8.900	9.300 9.300	9.700 9.700	10.100 10.100	10.500 10.500
<b>Coastal Area</b>										
11. 11. A.	Planned closure of 1 HC Forecast savings	06/02	10/02		1.000 1.000	1.400 1.400	1.400 1.400	1.500 1.500	1.600 1.600	1.700 1.700
<b>Southwest Area</b>										
12. 12. A.	Planned closure of 4 HC's Forecast savings	06/02	10/02		12.700 7.400	18.100 12.995 (b)	18.700 13.020 (f)	19.400 13.500	20.200 14.060	21.000 14.620
<b>San Fernando Valley Area</b>										
13. 13. A.	Planned closure of 2 HC's Forecast savings	06/02	10/02		3.200 3.200	4.500 4.500	4.700 4.700	4.800 4.800	4.900 4.900	5.000 5.000
<b>Antelope Valley Area</b>										
14. 14. A.	Planned 5% efficiency from AV/DHS Partnership Forecast savings	06/02	10/02		0.030 0.030	0.200 0.200	0.200 0.200	0.200 0.200	0.200 0.200	0.200 0.200
<b>OTHER</b>										
16. 16. A.	Planned PPP visit reductions Forecast savings	06/02	09/02		12.500 12.500	15.000 15.000	15.000 15.000	15.000 15.000	15.000 15.000	15.000 15.000
20. 20. A.	Planned Public Health reductions Forecast savings	06/02	10/02		6.700 7.500	9.200 7.730 (b)	9.400 7.960 (f)	9.700 8.200	10.000 8.450	10.300 8.700
21. 21. A.	Planned contract out of OMC Admin Forecast Saving (e)	06/02	05/03		2.300 2.300 (i)	8.000 (b)	8.000 -	8.000 -	8.000 -	8.000 -
22.	Planned cost/revenue adjustments (j)	10/02	07/03	07/03	-	25.700	41.600	38.600	38.600	38.600
<b>SCENARIO III PLANNED SAVINGS TOTAL (k)</b>					<b>\$ 56.830</b>	<b>\$ 240.800</b>	<b>\$ 309.500</b>	<b>\$ 357.500</b>	<b>\$ 377.600</b>	<b>\$ 399.500</b>
<b>LESS: FORECAST SAVINGS AS OF 09/02/04</b>					<b>40.480 (l)</b>	<b>132.641</b>	<b>178.204</b>	<b>310.504</b>	<b>325.746</b>	<b>342.086</b>
<b>SAVINGS SURPLUS / (SHORTFALL)</b>					<b>\$ (16.350)</b>	<b>\$ (108.159)</b>	<b>\$ (131.296)</b>	<b>\$ (46.996)</b>	<b>\$ (51.854)</b>	<b>\$ (57.414)</b>
<b>LESS: COURT ORDERED ENJOINED SAVINGS</b>					<b>-</b>	<b>65.60</b>	<b>83.71</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ADJUSTED SAVINGS SURPLUS / (SHORTFALL)</b>					<b>\$ (16.350)</b>	<b>\$ (42.559)</b>	<b>\$ (47.590)</b>	<b>\$ (46.996)</b>	<b>\$ (51.854)</b>	<b>\$ (57.414)</b>

**Note: Shaded items are revisions from the last Fiscal Outlook Update of 6/10/04. (Please refer to changes listed on Page 2)***The attached footnotes are an integral part of the Scenario III Summary Report.*

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES  
**SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) <sup>(a)</sup>**  
FISCAL YEARS 2002-03 THROUGH 2007-08  
(\$ in millions)

**Notes:**

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million. The savings projections originally projected in FY 03-04 are being covered with the estimated surplus from DHS' FY 03-04 operations.
- (c) Pending outcome of the litigation (RLA - Rodde Case Scheduled Court Date 2/22/2005) and (LAC+USC/RLA - Harris Case Scheduled Court Date 4/26/2005). This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost. In FY 04-05, \$10.894 million reflects the cumulative savings with an additional \$1.794 million S&S savings in the FY 04-05 DHS Supplemental Budget Request due to reductions in contracts that will not affect Census.
- (d) Reflects a savings delay of four months in FY 2004-05, up from three months.
- (e) Revised savings as of September 02, 2004.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) DHS revised the FY 03-04 savings for psych services restructuring from \$20.2 million to \$16.5 million in savings for psych services restructuring. However, the CAO Supplemental Budget Resolution includes a savings of \$6.3 million (original psych services net cost of \$20.2 million less a reduction in net cost of \$10.5 million and adjusted for an error at K/DMC of \$4.3 million). Negotiations are still ongoing regarding the restructure, however, it appears there will be no additional savings beyond the \$6.3 million included in the CAO Supplemental Budget for FY 03-04. The FY 04-05 savings is based on the FY 04-05 DHS Supplemental Budget savings of \$9.7 million. FY's 05-06 and forward reflect the loss off additional revenue, primarily due to the expiration of the 1115 Waiver.
- (i) OMC met the \$2.3 million target through existing one time FY 02-03 operational savings, even though the contracting out to LA Care has not happened.
- (j) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (k) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (l) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (m) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (n) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

**Changes made to shaded items are revisions from the last Fiscal Outlook Update of 6/10/04 as follows:**

- (1) Line 6.A - Forecast savings of \$9.266 million decreased by \$0.635 million to \$8.631 million based on the FY 03-04 Final Financial Performance Analysis Report provided by the facility. The revised savings amounts for FY 04-05 and forward are calculated based on the forecast savings plus the incremental change to the targeted savings plan between each fiscal year.
- (2) Line 8.A - Forecast savings for FY 03-04 revised from \$6.3 million to \$7.721million based on final actuals reported with the closing of the books 8/17/04. million based on the FY 04-05 DHS Supplemental Budget Request.
- (3) Line 9.A - Forecast savings of \$10.617 million decreased by \$0.753 million to \$9.864 million based on the FY 03-04 Final Financial Performance Analysis Report provided by the facility.